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1971 missouri pacific railroad annual report

1961-71 decade of renewal/new look continues at mo-pac

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UNITED STATES TRUST COMPANY OF NEW YORK
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St. Louis Transfer Agent
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St. Louis, Mo. 63102

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Class A Stock, One Whitehall Street
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St. Louis, Mo. 63101

ANNUAL MEETING OF STOCKHOLDERS
The Second Tuesday in May
General Offices
Missouri Pacific Building
St. Louis, Mo. 63103

Missouri Pacific System Annual Report

for the year ended December 31, 1971

Consolidated Financial and Operating Highlights

Income and Expense Items:	1971	1970
Operating Revenues	$602,620,000	$534,128,000
Operating Expenses	467,809,000	416,806,000
Operating Ratio (Rail Line)	75.2%	75.4%
Income Available for Fixed Charges	65,499,000	58,670,000
Times Fixed Interest Earned	2.6	2.3
Net Income Before Extraordinary Items —		
In Conformity With I.C.C. Accounting Principles	25,016,000	21,580,000
Adjusted to Generally Accepted Accounting Principles	17,757,000	11,511,000
Extraordinary Items —		
In Conformity With I.C.C. Accounting Principles	(7,678,000)	
Adjusted to Generally Accepted Accounting Principles	(6,116,000)	
Net Income (Including Extraordinary Items) —		
In Conformity With I.C.C. Accounting Principles	17,338,000	21,580,000
Adjusted to Generally Accepted Accounting Principles	11,641,000	11,511,000
Cash Dividends Per Share — Class A and B Stocks	5.00	5.00

See Pages 21-22 for Information Relating to the Class A and Class B Capital Stocks of the Company

Financial Position:		
Gross Capital Expenditures	$ 71,092,000	$ 55,740,000
Depreciation and Retirements Charged to Income	40,219,000	37,958,000
Working Capital, exclusive of long term debt due within one year	23,716,000	21,087,000
Long Term Debt, including amount due within one year	716,303,000	719,192,000

Freight Statistics:		
Average Miles of Railroad Operated	11,821	11,819
Revenue Ton Miles (1,000's)	37,174,539	35,800,738
Revenue Per Ton Mile (cents)	1.47	1.33

Employees:		
Total Amount of Payroll	$251,509,000	$224,927,000
Average Annual Wages	10,894	9,630
Average Number of Employees	23,086	23,356

To our stockholders

The Missouri Pacific System continued to prosper and to grow during 1971, a year that was marginal for much of the railroad industry.

Consolidated net income, before extraordinary items, was higher than in the previous year. Earnings were substantially reduced, however, by the writeoff of a number of extraordinary charges. Gross revenues and freight ton-miles again established new highs. Capital improvements were carried forward at a level far above that of 1970 and MoPac announced a record modernization program for 1972. For the second straight year, investment by other industries in new or expanded facilities along the Missouri Pacific System exceeded $600 million.

By contrast, the Association of American Railroads estimates that the railroad industry as a whole will show a 4 per cent decline in ton-miles for the year despite a 5 per cent gain in operating revenues. The industry's average rate of return on investment in 1971 was 2.51 per cent. Missouri Pacific System's rate of return for 1971 was 4.47 per cent.

Substantial gains in automobile, lumber and wheat loadings for the year and fourth-quarter increases in chemical traffic contributed favorably to Missouri Pacific's performance in 1971. On May 1 the Company was relieved of its passenger service by the activation of AMTRAK. As a result, we will be freed from the large deficits produced in past years by passenger operations. Finally, the Missouri Pacific System continues to benefit in the form of operating efficiencies and service improvements made possible by the investment of more than $650 million in modernization during the past decade of renewal. Highlights of this decade are presented along with the summary of the past year in this annual report.

The railroads faced labor difficulties during 1971, including a short but costly strike. Eventually, wage agreements far in excess of the administration's proposed guidelines were reached with the railroad brotherhoods. Thus far it does not appear that the railroads will be able to gain enough revenue from proposed freight rate increases to offset the higher payroll costs. We did, however, gain some improvements in work practices which will eventually produce cost savings. We can look forward to a period of peace with labor until at least mid-1973 when some contracts again are scheduled for review.

Thus far we are encouraged by economic developments in the first months of 1972. Business in all quarters of the 12-state area served by the Missouri Pacific has been good and should remain firm through the year. Intermodal traffic has been climbing from its 1971 plateau. The physical plant is in excellent condition and is being maintained at a high level. We look ahead to another decade of successful performance in behalf of our stockholders, our customers and our employees.

DB Jenks

D. B. Jenks
Chairman and President
February 25, 1972

FINANCIAL: Financially, the Missouri Pacific System has recorded steady growth in revenues while sustaining a consistently profitable operation. In 1961, consolidated net income, on the basis of Interstate Commerce Commission accounting principles, was $12.6 million. Consolidated net income rose to $22.3 million the following year and has fallen below the $21 million level only once since then, not including either extraordinary gains or losses. Dividends paid per share of Class A stock have risen from $2.40 to $5.00. Class B stockholders also have received a $5 dividend since 1964. At the same time, the Company has financed heavy capital improvements and has maintained at a high level its track, equipment and structures.

FINANCIAL

Missouri Pacific System consolidated net income for 1971 rose to $25,016,000, before extraordinary items, from $21,580,000 in 1970. Net income for the year after extraordinary items was $17,338,000.

Extraordinary items, net of taxes and minority interests, totaling $7,678,000 in 1971 consisted mainly of the estimated loss on discontinuance of rail passenger operations, offset partially by a gain on reacquisition of company bonds. The Company had no extraordinary items in 1970.

Missouri Pacific System consolidated net income, adjusted to generally accepted accounting principles, amounted to $11,641,000 in 1971 as compared to $11,511,000 in 1970.

Operating revenues for the year reached an all-time record of $602,620,000, an increase of 12.8 per cent from the previous year's $534,128,000.

For the eighth consecutive year, all stockholders received a $5 cash dividend.

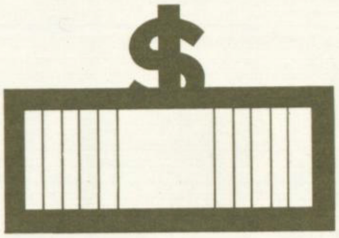
Missouri Pacific's consolidated figures include the accounts of the Chicago & Eastern Illinois System. In 1971, the C&EI had income of $2,485,000, before extraordinary charges, on operating revenues of $37,734,000. Comparable figures for 1970 were net income of $781,000 on revenues of $32,808,000. Extraordinary charges, after taxes, totaled $875,000 in 1971, as a result of the estimated loss on discontinuance of rail passenger operations. Missouri Pacific owns 61.1 per cent of the C&EI.

Cash Position Improves

Missouri Pacific System's consolidated cash and temporary cash investments totaled $65,969,000 as of December 31, 1971, compared to $52,774,000 on the same date in 1970. Working capital on the same date amounted to $23,716,000, compared to $21,087,000 on the final day of 1970.

Consolidated funded debt, including debt due within one year, was $716,303,000 on December 31, 1971, compared to $719,192,000 on the same day in 1970. Equipment obligations issued during the year amounted to $33,498,000 while repayments totaled $25,386,000.

CAPITAL INVESTMENT: Capital expenditures for modernization and improvements have amounted to $661 million during the past decade. This money has been used primarily to purchase new freight cars and diesel locomotives as well as for new automated freight yards, merchandise freight terminals, shop facilities, advanced signals and communications, computer installations and for new track construction. Management has maintained that expenditures on such a scale have been not only a necessity for survival in a highly competitive climate but also a solid investment in the future of the company. This contention appears to be borne out by the company's solid financial performance, by business growth and by operating efficiency.



Capital improvements expenditures during the year totaled $71,092,000 compared to $55,740,000 in 1970.

SALES & SERVICE

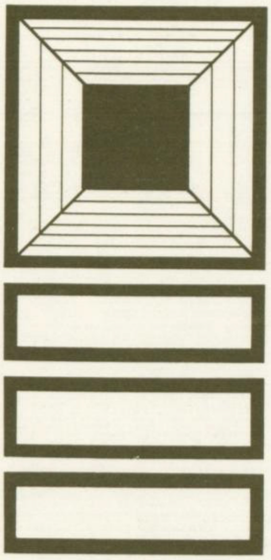
Traffic volume on the Missouri Pacific System improved during 1971, whether measured in terms of carloadings or in terms of freight ton-miles. Carloadings showed a modest gain, while freight ton-miles, a more accurate measurement, amounted to a record 37.2 billion, an increase of 3.8 per cent. Freight revenues climbed to $574,827,000, a gain of 13.9 per cent over the previous year.

Gains in business may be attributed to several factors:

- Firm economic strength in the area served by MoPac
- Increases in traffic secured from connecting lines
- New business resulting from industrial development in past years
- Better utilization of an expanded supply of freight equipment
- Implementation of incentive and volume rates attractive to shippers in several commodity categories
- An efficient and creative sales force
- Aggressive promotion of the Company's diverse transportation/distribution services.

Turning to specific segments of Missouri Pacific's diversified traffic business, substantial increases were recorded in auto and lumber traffic. Domestic automobile production rose sharply in 1971 and Missouri Pacific also was able to secure considerable new business in the import auto market. Lumber loadings also rose as a result of a record boom in new housing. Agricultural business was mixed, with record wheat and sorghum harvests more than offsetting decreases in corn, rice and fresh produce. Iron and steel traffic, heavy during the first quarter of the year because of inventory buildups against a strike

INTERMODAL SERVICES: Piggyback and containerization have been the fastest growing forms of transportation service for the Missouri Pacific System during the 10-year period. In both areas MoPac's growth rate has outstripped that of the railroad industry as a whole. In 1961, for example, MoPac handled 26,000 trailers in piggyback service. Ten years later the total had grown to 133,002 trailers. The existence of highly developed service and facilities is the key to success in this area of operations. MoPac has met these needs by constructing intermodal handling facilities at key points around its system, by expanding the size of its trucking operations to more than 3,000 units, by creating fast intermodal trains — the Eagle Piggyback Fleet — to provide service between major cities and by establishing several subsidiary operations specializing in intermodal services.



that failed to materialize, decreased in the second and third quarters, but seemed to be returning to normal by the end of the year. Traffic from the chemical industry was depressed during the first half of the year, but showed an increase during the closing months of 1971.

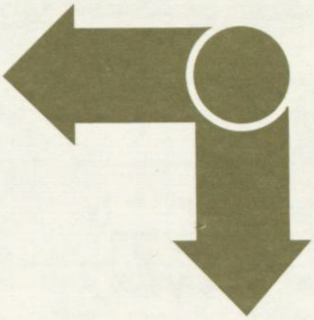
Intermodal Traffic Growth Slowed

Growth in the intermodal traffic areas, piggyback and containerization, slowed in 1971 after recording sharp gains in recent years. This was the result of several developments of a temporary nature rather than to any slackening of interest among shippers.

The Missouri Pacific-Texas & Pacific showed a 4.8 per cent gain in Plans I through V piggyback, the largest segment of the intermodal market, but ended the year with a 4.6 per cent decrease in overall piggyback traffic because of losses in mail account diversion to highway by the U.S. Postal Service. System losses in piggyback traffic were primarily the result of a rate schedule which was not competitive with those offered by truckers. However, following rate adjustments, piggyback was once again rising during the final quarter of the year. The Chicago & Eastern Illinois Railroad, a majority controlled subsidiary of the Missouri Pacific Railroad, actually recorded a sharp gain in trailer loadings, an increase of 13.2 per cent from the previous year.

Container traffic for the year amounted to 5,271 loadings, a gain of 14.2 per cent from the previous year. Midway through the year, a 20 per cent increase in container business had been projected. Then dock workers staged a series of strikes against ports along the Pacific, Gulf and Atlantic coasts and the issues involved in these strikes still had not been settled as 1972 began. As a result, container movements were greatly reduced since most of them involve overseas freight. Containerization, at this point a small part of overall business, continues to promise great potential during the coming decade.

At this date no action has been taken by the Civil Aeronautics Board on Missouri Pacific's application to serve as an air freight forwarder under the auspices of its wholly-owned subsidiary, Missouri Pacific Airfreight Inc. The application



FOREIGN FREIGHT: Foreign freight traditionally has played an important role in Missouri Pacific's business because of the company's operations along the Gulf Coast and the Mexican border. This segment of our business has expanded during the past decade and will expand further in the coming years for a number of reasons. First, developments in containerization have produced great economies for overseas shippers. In fact, MoPac has established an office in Tokyo, Japan, to keep closer contact with container shippers. We also have offices in Mexico. Second, there has been increasing pressure on U.S. businessmen to expand overseas markets, especially. Third, Mexico has experienced great economic growth and the emergence of a broad, consumer middle class. Finally, there has been some progress towards the establishment of foreign trade zones in the interior of the United States.

was filed in January, 1968. There are no indications when the CAB will make its decision.

Truck Lines Record Lower Net

Missouri Pacific System's wholly-owned truck lines, Missouri Pacific Truck Lines and Texas and Pacific Motor Transport, reported net income of $35,000 before taxes; however, tax adjustments resulted in a net loss of $51,000 on revenues of $31.7 million. This compares to 1970 earnings of $237,000 on revenues totaling $31 million. The primary factors contributing to the decline were a time lag in securing regulatory approval for tariff rate increases to offset wage increases, loss of Government traffic to contract haulers and a diversion of U.S. Mail traffic to Star Route operators.

During the year the truck lines acquired 95 additional pieces of motor equipment at a cost of nearly $1 million and have placed $1.5 million in orders for equipment to be delivered in 1972. The truck lines fleet, now numbering more than 3,000 units of highway equipment, is among the most modern in the industry.

Continued progress also was made toward elimination of artificial governmental restrictions imposed on the truck lines because of their railroad ownership.

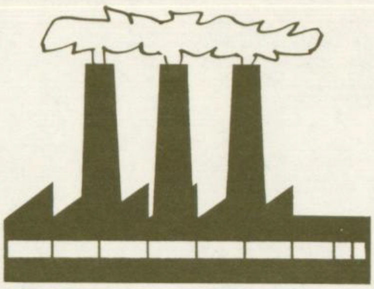
Coal Revenues Climb Despite Strike

Coal continued as one of the most rapidly expanding areas of business during 1971. Despite a nationwide coal strike from October 1 through November 22 which wreaked havoc among many of the eastern railroads, revenues from coal traffic advanced about 11.5 per cent for the year. Prior to the strike, coal revenue had been running about 26 per cent ahead of 1970 figures.

The combination of new mines being opened in southern Illinois and coal moving in unit trains over the Missouri Pacific to midwest utility power plants has been the primary source of new coal business.

Three recently-opened mines will themselves account for approximately 9,000,000 tons of coal

NEW INDUSTRY: New industry has been of substantial importance to the Missouri Pacific in attracting new freight business. During the past decade, our industrial development department has achieved one of the best records in the railroad industry in attracting new and expanded plants. During the 10-year period, hundreds upon hundreds of firms have invested millions of dollars in new and expanded facilities. Since 1965, for instance, 1,740 firms have spent $3.2 billion on new and expanded facilities. To MoPac, in turn, this investment means thousands of additional cars of freight each year. Now, MoPac is taking still another direction in encouraging industry to locate along its lines by creating attractive industrial parks for light industry and warehousing operations. Two such parks are now in development and several more are planned.



a year to be moved by the Missouri Pacific. Another new Missouri power plant, now expected to be in operation by 1975, will account for an additional 3,000,000 tons of coal annually.

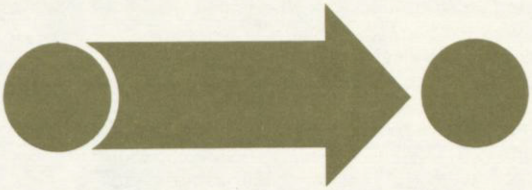
Industrial Development Tops $600 Million

For the second year in a row, investment for new and expanded industries along the Missouri Pacific System topped $600 million. Nearly 180 projects were involved, which are expected to produce more than 50,000 additional carloadings a year. Included are new chemical and steel plants, warehouses, industrial manufacturing plants, paper mills and food processing facilities. Substantial additions were made to existing breweries, chemical plants, power plants and industrial manufacturing facilities.

Marketing Helps Produce Increased Sales

Marketing personnel continued to produce new pricing and service concepts attractive to shippers and thus contributed solidly to sales. By reducing rates to meet competition and by creating new incentive pricing on some commodities, marketing was able to stimulate increased piggyback traffic during the latter part of the year. Volume pricing helped attract new business from shippers of chemicals, plastics and fertilizers. Marketing also played an important role by cooperating with sales and operating men to create a service both economic and efficient enough to secure trainload movements of prefabricated housing units.

At the same time, continued progress was made in using sophisticated computer techniques to identify types of traffic in terms of actual profitability. Information such as this is beneficial to salesmen in establishing new target accounts. Among various studies completed was one on barge costs which is considered to be the most comprehensive of its type ever published. This study will prove highly valuable in devising new tools to battle MoPac's heavy barge competition.



OPERATIONS: Quick and efficient train operation meeting shippers' needs is MoPac's reason for being. Thus much emphasis has been placed upon improving basic railroad transportation. Improvements have taken forms far too numerous to mention in detail. Among the improvements have been: unit trains moving a single commodity between two fixed points, pre-blocking of freight cars to reduce switching time, creation of expedited trains to handle high-value commodities, construction of yards and sidings, cooperative ventures with other railroads in setting up run-through trains, terminal car control programs to cut yard handling time, removal of sharp curves and grades to improve train performance, and many more.

Sales Reorganization and Training Continues

During 1971 almost every member of Missouri Pacific's 300-member sales force participated in an intensive one-week educational program established by the vice president-traffic and conducted by the new sales training department. Among areas covered in the program were development of professional sales techniques, proper planning of work time and improved methods of sales territory development. A similar program was conducted for sales managers. The training sessions, enthusiastically received by all participants, will continue with new subject matter in 1972.

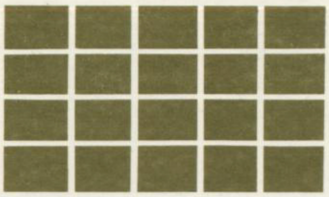
In December the traditional "traffic" titles used to identify salesmen were replaced by sales titles. Traffic representatives became sales representatives and general agents became sales managers with similar changes taking place throughout the organization. The change helps emphasize the aggressive selling and problem-solving roles played by our salesmen.

A new position, director of international, government and container sales, was created to coordinate activities in these three areas.

New Trains and Schedules Benefit Customers

Numerous improvements were made in arranging transportation services to fill the needs of MoPac customers. Two new Eagle Piggyback trains were put into operation between Chicago and Dallas-Fort Worth to handle new business. Missouri Pacific also joined with the Louisville & Nashville to establish a new run-through train between Nashville and Little Rock which reduces coast-to-coast transit time by as much as one day. Still another cooperative venture with the L&N and Seaboard Coast Line cut schedules between Houston and Florida points by 24 hours. Run-throughs with other lines, such as the Southern

THE FLEET: Business goes to the company that can handle it best. An adequate equipment fleet is an important part of this. The Missouri Pacific has purchased 21,468 freight cars and 435 diesel locomotives since 1961. It has nearly 60,000 freight cars and more than 1,000 locomotives in service. The MoPac freight car fleet, with an average age of less than 14 years per car, is among the most modern in the industry and 96 per cent of this fleet is in top running condition at any given time. Many of the cars are equipped with special load cushioning devices and many also are designed to meet specific shipper requirements. At the same time, substantial progress has been made in achieving more efficient utilization of this fleet through such measures as improved terminal handling, high speed communications and centralized car distribution



and Union Pacific, have also improved service by reducing time in busy terminals.

MoPac also was selected to handle two expedited auto trains established to carry high volume cross-country traffic for General Motors and Ford. Completion of Centennial Yard at Fort Worth made it possible to create more efficient schedules for several trains operating through that key terminal.

MODERNIZATION

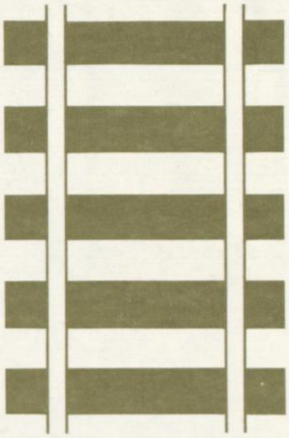
By the close of 1972, the Missouri Pacific System will have spent more than three quarters of a billion dollars since 1961 for modernization. This includes capital expenditures of $71 million in 1971 and a 1972 budget calling for expenditures of $92 million. These expenditures are considered an investment in both the present and the future for the Missouri Pacific. Outlays such as these are necessary in order to meet the traffic demands of today. Just as important, the investments in modernization being made today insure a future Missouri Pacific physical plant able to handle the transportation needs of tomorrow. Business goes to the company that proves itself able to handle it efficiently and economically. Shippers favor a railroad that can meet all their transportation and distribution needs. MoPac is that kind of a railroad. It is that kind of a railroad because it has recognized the need for a constant and consistent program of improvement and has wisely invested its funds in modernization.

Fleet Additions Surpass Retirements

Missouri Pacific's freight fleet was expanded during 1971 through the purchase of 2,849 freight cars, most of them designed to handle specific commodities, and the acquisition of 31 new diesel locomotives. Orders thus far for 1972 include 2,500 freight cars and 50 locomotives.

The average age of the fleet is now less than 14 years and 96 per cent of all cars are in top operating condition at any given time. The new cars average nearly 40 per cent greater freight capacity than the cars being retired.

PHYSICAL PLANT: The muscles of a railroad system are its physical facilities: track, bridges, yards, signals and communications system and shops. A sound physical structure is absolutely essential to efficient service and operation. MoPac is physically sound because of systematic and extensive maintenance and improvement undertaken since 1961. During the period, for example, Missouri Pacific has laid 3,394 miles of rail, most of it continuous welded rail; inserted 9,858,814 crossties; applied 11,703,612 cubic yards of ballast and resurfaced 40,020 miles of track. Yards have been expanded and modernized at numerous locations. Several major additions have been made to shops at North Little Rock while shops at Sedalia and DeSoto, Mo. have been streamlined and modernized. Bridge strengthening and renewal has been extensive. Centralized Traffic Control has been extended to 2,027 miles of railroad and new track has been built to serve many new industries. These are a few of the things MoPac has done as part of a "physical fitness" program equalled by few other railroads.



Track Renewal Program Maintained

Missouri Pacific continued its extensive track structure improvement program, spending now rather than postponing necessary work and being burdened later by the overwhelming costs of catching up on deferred maintenance.

During the year, MoPac forces laid 254 miles of rail, nearly all of it continuous welded rail; renewed 1,426,000 cross ties; applied 1,500,000 cubic yards of ballast and resurfaced 5,100 miles of track, the equivalent of 42 per cent of the 12,000-mile system. Bridge and trestle construction totaled more than 11,000 lineal feet or better than two miles of bridgework. More than 100 miles of track in Illinois was brought under the protection of Centralized Traffic Control and several track relocation projects were completed.

Centennial Yard Is Completed

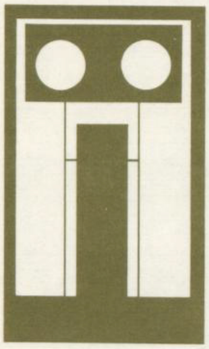
A three-year project to expand the old Lancaster Yard at Fort Worth and rebuild it into an automated operation was completed in 1971. The new facility was rededicated Centennial Yard as part of the activities observing the 100th anniversary of the Texas and Pacific Railway. The new yard, run by a digital computer, is considered among the most modern in the nation and has made it possible to reduce car handling time by as much as 50 per cent in the Fort Worth Terminal.

Intermodal Facilities Expanded

MoPac continues to solidify its position as a leader in intermodal freight business by constantly expanding and building new facilities to handle this type of traffic.

Late in the year construction began on a new intermodal terminal in St. Louis which will replace outmoded and overcrowded facilities at this key

COMPUTERIZATION: The efficiency of steel wheel on steel rail, coupled with steam locomotion, brought the railroad into existence. Diesel power propelled railroading into a new era. Now we are on the threshold of the computer era. The computer, used to carry out literally hundreds of time-consuming jobs, already plays a major role on the Missouri Pacific and has brought into being the fastest-growing career field of all. MoPac pioneered computerized inventory control and is now pioneering simulation of operating techniques. The most complex task yet assigned to this new kind of specialist has been the creation of MoPac's Transportation Control System, a program designed to improve service and equipment utilization by means of sophisticated communications and monitoring systems. Started at the close of the 60's, TCS will come into full operation during the present decade.



gateway. The 22-acre site will also be the location for a modernized St. Louis terminal office building. A new terminal was completed at Addis, La. and construction is virtually completed on a major new intermodal facility at Memphis. The intermodal base at Chicago was expanded. Several new projects will be completed in 1972.

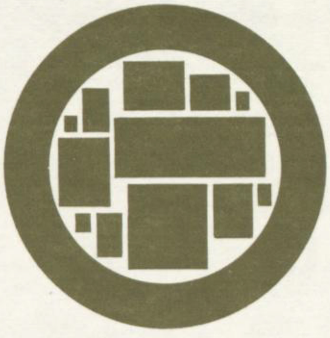
Total Diesel Servicing at Little Rock

A two-part program to provide total diesel locomotive maintenance and repair services was completed at North Little Rock. First, a shop designed for routine servicing and light repairs was put into operation. Early in 1971, a medium repair and inspection facility was opened. Construction of the two new shops freed a third, older shop to specialize in heavy repairs and overhauls. Previously, all work was handled at one shop. In addition, because they are located adjacent to the automated classification yard, the new shops save many hours of time which had been consumed in bringing locomotives to and from the distant older shop.

COMPUTER SERVICES

Computerization, constantly being expanded and refined, continued to play a vital role in Missouri Pacific's operations during the year. Besides handling many routine tasks faster and more efficiently, computers make it possible to conduct comprehensive analysis of complex logistics problems that might not have been addressed at all in years past. Computer simulation techniques enable MoPac to conduct experiments in improving train and yard operations without having to go into the field and possibly disrupt the very operations being studied. Computers enable MoPac to improve service.

The Transportation Control System, a massive program whose goal is to provide pinpoint control over each individual car on the system, made steady progress towards this goal during the year. Key accomplishments in this area were the addition of 48 new reporting stations for the



ACQUISITIONS: The Missouri Pacific System has expanded during the past decade through the acquisition of several smaller railroad properties. In 1964, the Texas & Pacific Railway acquired the Muskogee Lines and has since then completely merged them into its lines. The Muskogee Lines operate in Kansas, Oklahoma and Texas. In 1967, the Missouri Pacific Railroad acquired working control of the Chicago & Eastern Illinois Railroad through stock ownership. A year later, Missouri Pacific joined with the Chicago & North Western to purchase the Alton & Southern Railway, an important switching line in the St. Louis Gateway. In each instance the acquisition has been mutually beneficial. Missouri Pacific has improved its competitive position while aiding the acquired properties in attaining both physical and financial solidity.

on-line, real-time data collection and information dissemination system and the expansion of Yard Car Control, a perpetual inventory of cars in a classification yard, to nine more locations. At the same time, design and programming of the several later phases of TCS progressed on schedule. In addition, shippers were provided direct access to MoPac's computer system for car tracing purposes as well as indicating those cars for which automated reportings are required.

LITIGATION AND MERGERS

MoPac during 1971 continued its opposition to the efforts to dismember the Rock Island Railroad. Although the Examiner had indicated a decision favorable to the Union Pacific position, no official Examiner's report has yet been issued.

The merger of the Illinois Central and the Gulf, Mobile and Ohio Railroad has been approved by the Interstate Commerce Commission. The Missouri Pacific has asked the federal courts to set aside the Commission decision.

MoPac intends to continue its opposition to both of these mergers since they represent dangerous threats to the Company, particularly in view of the alleged control by Union Pacific of the Illinois Central Railroad.

The suit against the Company and certain of its directors in the Federal Court in New York City, brought by MoPac's Class B stockholders seeking higher dividends on that stock, is still pending and discovery proceedings have continued throughout the year. No setting of the case for trial has as yet been made.

LEADERSHIP

No matter how well a company may be managed today, it must constantly look ahead to tomorrow when new leadership will be needed. Cognizant of this need for future leadership, MoPac is

PEOPLE: The future of the Missouri Pacific System depends on a steady line of able managers and skilled professionals ready to guide all phases of its operations. Development of talent at all levels of the company has received high priority during the decade. Development programs take many forms, including: education of present employees ranging from on-the-job short courses to paid leave of absence to pursue graduate degrees. Tuition aid is extended to all employees taking job-related courses on their own time. An intensive management development program in three basic areas of operations is open to promising men from the ranks and to college graduates recruited for employment by MoPac. In addition, the company hires directly from the colleges and, when necessary, from other industries to fill key technical and professional positions. As a result, MoPac possesses both depth and quality of management in all departments.

developing a solid management-professional cadre with depth and quality.

During 1971, MoPac recruiters visited 25 colleges and interviewed more than 900 men and women for positions either in the management development program or in professional areas. Efforts also were made to employ skilled professionals discharged by other companies suffering financial difficulties, particularly in the data processing area. As a result 32 young men joined the management development program and an additional 67 men and women assumed professional posts.

Continued emphasis was placed upon development and advancement of present employees. A newly inaugurated program freed two employees to pursue college degree programs with the Company providing paid leave of absence and educational expenses. Employees also were promoted from the ranks into middle management positions. In addition, nearly 350 employees took advantage of the Company's tuition aid program and many more participated in special short courses and seminars.

W. G. Marbury Dies

William G. Marbury, chairman of the board of the Missouri Pacific Railroad and a man who played a significant role in guiding MoPac through a decade of renewal, died July 11, 1971. He was succeeded as chairman by Downing B. Jenks, also president of the Missouri Pacific Railroad. James M. Kemper, Jr. was elected to fill Mr. Marbury's post as chairman of the Executive Committee.

Elected to the board of directors were Harold E. Thayer and Mark M. Hennelly. C. Jackson Maurer was elected secretary. Thomas H. O'Leary was elected vice president — finance. Hugh S. Vierling was elected vice president — Chicago and Gene N. Fondren was elected vice president — Washington, D.C.

Missouri Pacific System

Consolidated Statement of Changes in Financial Position

(In Thousands of Dollars)

	1971	1970
Financial resources were provided by:		
Net income before extraordinary items	$ 25,016	$ 21,580
Add — Charges (credits) against income not requiring working capital —		
Depreciation and retirements	40,219	37,958
Increase in long term casualty and pension reserves	1,583	376
Loss on sale of investments in securities of Santa Fe Industries, Inc.	2,073	
Gain on reacquisition of long term debt		(937)
Income applicable to minority interests	1,669	1,002
Other	480	219
Working capital provided from operations	71,040	60,198
Salvage from property sold or retired	5,050	7,393
Proceeds from sale of investments in securities of Santa Fe Industries, Inc.	8,252	
Capital fund deposit decrease		3,162
Proceeds from equipment obligations issued	33,498	17,429
Proceeds from sale of Chicago & Eastern Illinois common stock to minority interests		1,569
	117,840	89,751
Financial resources were used for:		
Working capital used for extraordinary items —		
Entry fee in connection with discontinuance of rail passenger operations, net of income taxes	1,252	
Reacquisition of bonds	6,317	
Property additions	71,092	55,740
Repayments of equipment obligations	25,386	24,996
Reduction of long term debt (other than 1971 extraordinary items)	218	2,291
Dividends (including amounts paid minority interests)	9,818	10,257
Purchase of securities	1,610	96
Other, net	(482)	453
	115,211	93,833
Increase (decrease) in working capital (exclusive of changes in long term debt due within one year)	$ 2,629	$ (4,082)
Analysis of changes in working capital:		
Cash and temporary cash investments	$ 13,195	$ 11,723
Accounts receivable	(868)	(5,801)
Material and supplies	1,597	(962)
Other current assets	(663)	(2,871)
Accounts and wages payable	(8,854)	(8,649)
Federal income taxes accrued	(2,358)	299
Other current liabilities	580	2,179
Increase (decrease) in working capital (exclusive of changes in long term debt due within one year)	$ 2,629	$ (4,082)

See Notes to Consolidated Financial Statements, Pages 20-23.

Missouri Pacific System

Consolidated Balance

Assets	Dec. 31, 1971	Dec. 31, 1970
Current Assets:		
Cash	$ 23,843	$ 19,849
Temporary Cash Investments, at cost (approximates market)	42,126	32,925
Deposits for Interest and Dividends	8,328	9,063
Accounts Receivable	51,091	51,959
Material and Supplies	15,304	13,707
Other Current Assets	1,509	1,437
	142,201	128,940
Properties: (Note 5)		
Road	874,297	864,653
Equipment	823,961	800,694
Miscellaneous	36,998	37,341
	1,735,256	1,702,688
Accumulated Depreciation		
Road	Cr 120,915	Cr 114,701
Equipment	Cr 324,507	Cr 316,439
Miscellaneous	Cr 12,687	Cr 12,810
Excess of Net Assets (at acquisition) of Consolidated Subsidiaries over carrying value of investments	Cr 56,724	Cr 55,382
	1,220,423	1,203,356
Other Assets and Deferred Charges:		
Investment in Santa Fe Industries, Inc. 6¼% Convertible Subordinated Debentures	14,486	24,813
Investment in Terminal and Other Companies	31,655	32,769
Capital, Insurance and Other Funds	1,175	1,678
Other	7,720	6,471
	55,036	65,731
	$1,417,660	$1,398,027

Sheet (In Thousands of Dollars)

Liabilities	**Dec. 31, 1971**	**Dec. 31, 1970**
Current Liabilities: (Exclusive of Long Term Debt Due Within One Year)		
Accounts and Wages Payable	$ 74,627	$ 65,773
Interest and Dividends Payable	6,718	7,417
Unmatured Interest Accrued	13,384	13,222
Federal Income Taxes Accrued (Note 2)	7,961	5,603
Other Taxes Accrued	9,503	9,727
Other Current Liabilities	6,292	6,111
	118,485	107,853
Long Term Debt — Due Within One Year (Equipment Obligations)	26,199	24,572
Long Term Debt (Page 19)	690,104	694,620
Other Liabilities and Deferred Credits	23,584	17,351
Equity of Minority Stockholders in Consolidated Subsidiaries (Note 1)	41,428	43,621
Stockholders' Equity: (Notes 6, 7 and 9)		
Capital Stock — No Par Value		
Class A — Authorized 3,000,000 shares; outstanding 1,864,052 and 1,863,552 shares, respectively (excluding 17,600 shares held by Company)	186,405	186,355
Class B — Authorized 1,000,000 shares; outstanding 39,731 shares	3,973	3,973
Capital Surplus	1,517	1,537
Retained Income (Page 19)	325,965	318,145
	517,860	510,010
	$1,417,660	$1,398,027

Commitments and Contingent Liabilities (Note 8)

See Notes to Consolidated Financial Statements, Pages 20-23.

Missouri Pacific System

Statement of Consolidated Income

(In Thousands of Dollars)

	1971	1970
Operating Revenues:		
Freight	$574,827	$504,506
Passenger, Mail and Express	5,736	9,054
Switching and Other	22,057	20,568
Total Operating Revenues	602,620	534,128
Operating Expenses: (Note 4)		
Maintenance of Way and Structures (Note 5)	88,845	76,177
Maintenance of Equipment	110,355	97,745
Traffic	15,168	14,350
Transportation	227,221	203,992
General and Miscellaneous	26,220	24,542
Total Operating Expenses	467,809	416,806
Net Revenue from Operations	134,811	117,322
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	38,868	38,108
Equipment and Joint Facility Rents	35,399	29,309
Total Other Operating Charges	74,267	67,417
Net Operating Income (Before Federal Income Taxes)	60,544	49,905
Other Income (Net)	4,955	8,765
Income Available for Fixed Charges (Before Federal Income Taxes)	65,499	58,670
Interest:		
Fixed	25,139	25,009
Contingent	10,337	10,526
Total Interest	35,476	35,535
	30,023	23,135
Federal Income Taxes (Note 2)	3,338	553
	26,685	22,582
Less — Income Applicable to Minority Interests	1,669	1,002
Net Income Before Extraordinary Items	25,016	21,580
Extraordinary Items, Less Federal Income Taxes and Portion Applicable to Minority Interests (Notes 2 and 3)	(7,678)	
Net Income (Including Extraordinary Items) (In Conformity with I.C.C. Accounting Principles — Note 2)	$ 17,338	$ 21,580

Supplementary Income Information

	1971	1970
Net Income Before Extraordinary Items as above (In Conformity with I.C.C. Accounting Principles)	$ 25,016	$ 21,580
Adjustments to Generally Accepted Accounting Principles (Note 2):		
Add or (Deduct) —		
Deferred Federal Income Taxes	(7,784)	(10,525)
Portion of Deferred Federal Income Taxes Applicable to Minority Interests	525	456
Net Income Before Extraordinary Items	17,757	11,511
Extraordinary Items:		
Extraordinary Items as above (In Conformity with I.C.C. Accounting Principles—Note 3)	(7,678)	
Adjustments to Generally Accepted Accounting Principles (Note 2) — Deferred Federal Income Taxes Less Portion Applicable to Minority Interests of $151,000	1,562	
	(6,116)	
Net Income (Including Extraordinary Items) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ 11,641	$ 11,511
Depreciation and Retirement Charges Included Above (Note 5)	$ 40,219	$ 37,958

See Notes to Consolidated Financial Statements, Pages 20-23.

Missouri Pacific System

Consolidated Retained Income

(In Thousands of Dollars)

	1971	1970
Balance at beginning of year	$318,145	$306,081
Add — Net Income (In Conformity with I.C.C. Accounting Principles)	17,338	21,580
	335,483	327,661
Deduct — Cash Dividends —		
Class A Stock — $5.00 per share	9,319	9,317
Class B Stock — $5.00 per share	199	199
Balance at end of year (Including $84,582 and $78,731, respectively, appropriated by the Board of Directors) (Notes 6 and 9)	$325,965	$318,145

See Notes to Consolidated Financial Statements, Pages 20-23.

Long Term Debt

(Including Maturities in 1972)

(In Thousands of Dollars)

	Interest Rate	Date of Maturity	Changes 1971 Issued	Changes 1971 Reacquired	Outstanding December 31, 1971 (excluding amounts held by Company)
Missouri Pacific Railroad Company					
First Mortgage Bonds (1)	4¼%	1990 & 2005		$ 2,882	$248,634
General Mortgage Bonds (1)	4¾% (2)	2020 & 2030		3,968	110,535
Income Debentures	5% (2)	2045			100,016
Equipment Obligations	3⅝% to 9%	1972 to 1986	$18,560	12,570	101,234
Texas and Pacific Railway Company					
First Mortgage Bonds	5%	2000			18,961
Second Mortgage Bonds	5%	2000			73
General & Refunding Mortgage Bonds (1)	3⅞%	1985		3,826	14,953
First Mortgage Bonds (KO&G) (1)	3⅝%	1980		107	2,357
Equipment Obligations	4⅛% to 7¾%	1972 to 1986	11,400	5,791	66,303
Chicago & Eastern Illinois Railroad Company					
Income Debentures (1)	5% (2)	2054			1,721
Equipment Obligations	5% to 6¾%	1972 to 1982		1,585	10,124
Other Majority Owned Subsidiaries	4½% to 6%	1972 to 1985	3,538	5,658	41,392
Grand Total			$33,498	$36,387	$716,303

	1972	1973	1974	1975	1976
Equipment Obligations maturing during each of the next five years	$26,199	$24,252	$23,311	$22,416	$21,499

(1) Have annual sinking fund requirements.
(2) Contingent interest.

Missouri Pacific System
Notes to Consolidated Financial Statements

NOTE 1 — PRINCIPLES OF CONSOLIDATION:

The accompanying consolidated financial statements of the Missouri Pacific System include the accounts of the Missouri Pacific Railroad Company and its majority-owned subsidiaries, principally the Texas and Pacific System (96.3% owned) and the Chicago & Eastern Illinois System (61.1% owned).

NOTE 2 — FEDERAL INCOME TAXES:

The Company and its railroad subsidiaries maintain their books of account, and the accompanying statements have been prepared, in conformity with principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission. These principles and methods do not require provision for deferred federal income taxes as is required under generally accepted accounting principles.

The supplementary income information shown below the statement of consolidated income reflects the adjustments necessary to present income in conformity with generally accepted accounting principles. The adjustments for deferred federal income taxes provide for the tax effects of all material transactions which enter into the determination of pretax accounting income in one year and of taxable income in a different year. The condensed consolidated balance sheets shown below have been adjusted for the cumulative tax effects of these transactions at December 31, 1971 and 1970 and are presented in conformity with generally accepted accounting principles.

	December 31	
Assets	**1971**	**1970**
Current assets	$ 152,001,000	$ 136,040,000
Properties	1,230,223,000	1,212,756,000
Other assets and deferred charges	55,036,000	65,731,000
	$1,437,260,000	$1,414,527,000

Independent Accountants' Opinion

PRICE WATERHOUSE & CO.
ONE MEMORIAL DRIVE
ST. LOUIS 63102

February 25, 1972

To the Stockholders and Board of Directors of
MISSOURI PACIFIC RAILROAD COMPANY

We have examined the consolidated balance sheets of the Missouri Pacific Railroad Company and its subsidiaries as of December 31, 1971 and 1970 and the related statements of consolidated income, retained income, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of the characteristics of the company's two classes of stock, earnings per share data have been omitted from the accompanying consolidated financial statements (see Notes 6 and 9 to the consolidated financial statements).

In our opinion, except that provisions have not been made for deferred federal income taxes as set forth in the supplementary income information and earnings per share data have been omitted, the accompanying consolidated financial statements examined by us present fairly the financial position of the Missouri Pacific Railroad Company and its subsidiaries at December 31, 1971 and 1970, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Price Waterhouse & Co.

Liabilities	1971	1970
Current liabilities (exclusive of long term debt due within one year)	$ 114,485,000	$ 102,953,000
Long term debt — due within one year	26,199,000	24,572,000
Long term debt	690,104,000	694,620,000
Other liabilities and deferred credits	176,581,000	162,451,000
Equity of minority stockholders in consolidated subsidiaries	33,328,000	35,521,000
Capital stock and capital surplus	191,895,000	191,865,000
Retained income	204,668,000	202,545,000
	$1,437,260,000	$1,414,527,000

In 1971, the provision for current federal income taxes was reduced by $2,145,000, representing the estimated amount of investment tax credit currently realizable; however, in 1970, no investment tax credit was currently realizable. At December 31, 1971, investment tax credit carryovers of approximately $23,500,000 are available to offset future years' federal income taxes. Of the $23,500,000 carryover, $1,200,000 will expire in 1974, $6,100,000 in 1975, $4,500,000 in 1976, $2,000,000 in 1977, $4,700,000 in 1978, $3,400,000 in 1979 and $1,600,000 in 1980, if not used.

NOTE 3 — EXTRAORDINARY ITEMS:

Extraordinary items for the year ended December 31, 1971 consist of the following:

Estimated loss on discontinuance of rail passenger operations	$13,924,000
Gain on reacquisition of bonds	4,466,000
	9,458,000
Less federal income taxes	1,413,000
	8,045,000
Less portion applicable to minority interests	367,000
Extraordinary items (in conformity with I.C.C. Accounting Principles)	$ 7,678,000

On May 1, 1971, the Company entered into a contract with the National Railroad Passenger Corporation which relieved the Company of its entire responsibility for the provision of intercity rail passenger service. The resultant estimated loss includes the book value of properties removed from rail passenger service, liability to the National Railroad Passenger Corporation in consideration of such relief, impairments to investments in terminal companies, employee protective benefits and other related costs.

During the year the Company reacquired bonds having a par value of $10,783,000.

NOTE 4 — RETIREMENT PLAN:

The companies have an unfunded, noncontributory pension plan for executives, officials and certain key employees. Related charges to operating expense in 1971 and 1970 were approximately $3,162,000 and $2,936,000, respectively, representing accruals which include normal cost and amortization of prior service cost over a period of 35 years, plus interest on the recorded unfunded pension liability.

The actuarially computed value of benefits pertaining to retired employees exceeds the recorded pension plan liability by approximately $18,420,000 and $18,250,000 at December 31, 1971 and 1970, respectively.

NOTE 5 — PROPERTIES:

Properties are stated at estimated original cost as determined by Interstate Commerce Commission valuations (as of January 1, 1955, date of reorganization, as to the parent company) plus additions and betterments at cost and less retirements since the dates of valuations.

The companies follow the straight-line method of depreciation, using various group rates prescribed by the Interstate Commerce Commission, with respect to equipment and depreciable road properties. However, for rails, ties and other track materials, instead of depreciation accounting, they follow an acceptable alternate practice of "replacement" accounting. Under this method, replacements in kind are charged to expense while additions and betterments (improvements) are capitalized. The amounts capitalized are not depreciated and are charged against income only when the related properties are retired.

At December 31, 1971 and 1970 consolidated nondepreciable properties, including land and land rights, were approximately $545,000,000 and $539,000,000, respectively.

NOTE 6—CAPITAL STOCK AND RETAINED INCOME:

As of December 31, 1971, the Company had outstanding 1,903,783 shares of capital stock divided into two classes. Of this total 97.9% or 1,864,052 shares were Class A stock and 2.1% or 39,731 shares were Class B stock. The percentages are unchanged from December 31, 1970. These shares are without par value, but each has a stated value of $100 per share. Holders of Class A and Class B stock have full voting rights equal to one vote for each share held, but the Class A and Class B shares are entitled to vote separately as a class upon certain matters, including the issuance of additional shares and modifications of present shares.

Dividends on the Class A stock are noncumulative and may not exceed $5 per share in any given calendar year. After dividends of $5 per share have been paid on the Class A stock in any year, dividends may be paid on the Class B stock in such amount as the Board of Directors may declare. Dividends on both classes of stock are subject to the setting aside of such reserves and making such other provisions as the Board may deem necessary or advisable for working capital or expansion of the business of the Company, including the acquisition of property, or for other corporate purposes. Undistributed earnings of prior years may be used to pay cash dividends in succeeding years on either class of stock.

In the event of liquidation of the Company the holders of Class A stock shall be entitled to receive, out of the assets, the maximum of $100 per share before any distribution is made to the holders of the Class B stock. Thereafter, the holders of the Class B stock shall be entitled to receive any further distributions out of the assets of the Company without participation by the Class A holders. Neither the Class A nor Class B stock is convertible into the other class and neither is subject to redemption.

The provisions of the mortgages and indenture relative to priority of call in each year upon "Available Net Income" (as defined therein) have been satisfied and no restriction on the parent company's retained income at December 31, 1971 and 1970 exists.

NOTE 7 — STOCK OPTION PLAN:

A Restricted Stock Option Plan reserving 100,000 shares of Class A stock was approved by the stockholders on May 9, 1961. Under the plan, options granted prior to 1964 are cumulatively exercisable to the extent of 25% in each of the third through sixth years and expire ten years after the date of grant. Options granted in 1964 and subsequent are cumulatively exercisable to the extent of 35% in each of the third and fourth years and 30% in the fifth year and expire five years after the date of grant. No additional options can be granted under the plan. A summary of changes in stock options for the two years ended December 31, 1971 follows:

	Under option		Exercisable	
	Shares	**Price range**	**Shares**	**Price range**
Balance, January 1, 1970	12,850	$44.87-92.50	9,850	$44.87-92.50
Options—				
Became exercisable			3,000	92.50
Exercised	(200)	44.87	(200)	44.87
Expired	(500)	59.87-60.37	(500)	59.87-60.37
Balance, December 31, 1970	12,150	59.87-92.50	12,150	59.87-92.50
Options—				
Exercised	(500)	59.87-60.37	(500)	59.87-60.37
Expired	(10,000)	92.50	(10,000)	92.50
Balance, December 31, 1971	1,650	59.87-60.37	1,650	59.87-60.37

The aggregate option price of shares under option and exercisable at December 31, 1971 and 1970 was $99,000 and $1,054,000, respectively.

For the options exercised, Class A stock was credited at $100 per share, an aggregate of $50,000 in 1971 and $20,000 in 1970, and the difference between the $100 and the option price was charged to capital surplus, an aggregate of $20,000 in 1971 and $11,000 in 1970.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Company and its railroad subsidiaries lease a general office building and certain transportation equipment under long term lease agreements with total rental obligations of approximately $38,000,000 and $36,600,000 as of December 31, 1971 and 1970, respectively. In 1972, $3,300,000 of such obligations will be paid.

The Company and its railroad subsidiaries are contingently liable as guarantors, together with other owner railroads, for principal and interest of certain obligations of various affiliated companies aggregating approximately $127,600,000 at December 31, 1971. Under terms of a service interruption policy, the Company and its railroad subsidiaries are contingently liable for additional premiums up to a maximum of $13,950,000 in the event of work stoppages on other participating roads.

In the opinion of management, the above commitments and contingencies are normal operating arrangements.

NOTE 9 — LEGAL PROCEEDING:

The lawsuit in the New York City Federal Court, brought by the Company's Class B stockholders against the Company and its directors and Mississippi River Corporation, is still pending and it is anticipated that it will be some time before it can be reached for trial. These stockholders, who sue on behalf of all the Class, assert that the dividends paid on the Class B stock are inadequate and that Mississippi River Corporation is seeking to enrich itself by depriving those stockholders of their share of the Company's earnings. The Courts are asked to order Missouri Pacific and its directors to declare dividends on the Class B stock in such amounts as the Court shall determine to be just and reasonable out of retained income for the years 1955 through 1967, plus interest thereon, and that defendants be required to pay adequate dividends in the future. It is the position of the Company that the suit is without foundation and it is vigorously defending the same.

Computation and Application of Available Net Income

Income of Missouri Pacific Railroad Company and its Wholly-Owned Railway Companies (as required by the Company's Mortgages and Indenture) (In Thousands of Dollars)

	1971	1970
Income Before Fixed Charges and After Federal Income Taxes	$37,072	$45,217
Income of Wholly-Owned Railway Companies	115	115
Road Property Retired and Charged to Operating Expenses	1,895	1,306
	39,082	46,638
Less — Dividends of 100% Railway Companies Included in Missouri Pacific Income		200
Total Income Available for Fixed Charges	39,082	46,438
Fixed Charges	16,959	16,588
Available Net Income	22,123	29,850
Capital Expenditures Fund	5,946	4,548
Remaining Income	16,177	25,302
First Mortgage Sinking Fund	771	771
Remaining Income	15,406	24,531
Interest on General Mortgage Bonds, Series A	2,712	2,794
Remaining Income	12,694	21,737
Sinking Fund on General Mortgage Bonds, Series A	350	350
Remaining Income	12,344	21,387
Interest on General Mortgage Bonds, Series B	2,538	2,645
Remaining Income	9,806	18,742
Sinking Fund on General Mortgage Bonds, Series B	338	338
Remaining Income	9,468	18,404
Interest on Income Debentures	5,001	5,001
Balance	$ 4,467	$13,403

Missouri Pacific System

Condensed Statement of Consolidated Income For The Five Years Ended December 31, 1971

(In Thousands of Dollars)

	1971	1970	1969	1968	1967
Operating Revenues	**$602,620**	$534,128	$495,258	$445,749	$424,192
Operating Expenses	**467,809**	416,806	387,101	350,612	325,750
Net Revenue from Operations	**134,811**	117,322	108,157	95,137	98,442
Other Operating Charges	**74,267**	67,417	59,186	52,448	46,639
Other Income (Net)	**4,955**	8,765	9,577	10,688	6,537(a)
Interest Expense	**35,476**	35,535	34,571	33,111	32,307
Income Before Federal Income Taxes and Minority Interests	**30,023**	23,135	23,977	20,266	26,033
Federal Income Taxes	**3,338**	553	2,686	430	3,068
Less — Income Applicable to Minority Interests	**1,669**	1,002	4	649	787
Net Income Before Extraordinary Items	**25,016**	21,580	21,287	19,187	22,178
Extraordinary Items, Less Taxes and Minority Interests	**(7,678)**			2,941	8,200
Net Income (Including Extraordinary Items) (In Conformity with I.C.C. Accounting Principles)	**$ 17,338**	$ 21,580	$ 21,287	$ 22,128	$ 30,378

Supplementary Income Information

Net Income Before Extraordinary Items as above	**$ 25,016**	$ 21,580	$ 21,287	$ 19,187	$ 22,178
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	**(7,259)**	(10,069)	(7,147)	(7,505)	(5,528)
Net Income Before Extraordinary Items	**17,757**	11,511	14,140	11,682	16,650
Extraordinary Items:					
Extraordinary Items as above	**(7,678)**			2,941	8,200
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	**1,562**				
Net Income (Including Extraordinary Items) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	**$ 11,641**	$ 11,511	$ 14,140	$ 14,623	$ 24,850
Depreciation and Retirement Charges Included Above	**$ 40,219**	$ 37,958	$ 36,349	$ 35,915	$ 32,551

(a) Restated to include equity in C & E I earnings prior to majority position and consolidation in 1969.

Missouri Pacific Railroad Company

Statement of Income (Corporate)

(In Thousands of Dollars)

	1971	1970
Operating Revenues:		
Freight	$403,528	$350,207
Passenger, Mail and Express	2,919	5,502
Switching and Other	15,408	13,719
Total Operating Revenues	421,855	369,428
Operating Expenses:		
Maintenance of Way and Structures	63,021	53,805
Maintenance of Equipment	70,582	60,153
Traffic	9,480	8,806
Transportation	149,676	133,165
General and Miscellaneous	18,617	17,428
Total Operating Expenses	311,376	273,357
Net Revenue from Operations	110,479	96,071
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	26,608	26,171
Equipment and Joint Facility Rents	44,917	39,333
Total Other Operating Charges	71,525	65,504
Net Operating Income (Before Federal Income Taxes)	38,954	30,567
Other Income (Net):		
Intercompany Dividends (Eliminated in Consolidation)	3,209	8,673
Other, Net	1,701	5,162
Total Other Income	4,910	13,835
Income Available For Fixed Charges (Before Federal Income Taxes)	43,864	44,402
Interest:		
Fixed	16,959	16,588
Contingent	10,251	10,440
Total Interest	27,210	27,028
	16,654	17,374
Federal Income Taxes	320	Cr 815
Net Income Before Extraordinary Items	16,334	18,189
Extraordinary Items, Less Federal Income Taxes	(6,472)	
Net Income (Including Extraordinary Items) (In Conformity with I.C.C. Accounting Principles)	$ 9,862	$ 18,189

Supplementary Income Information

	1971	1970
Net Income Before Extraordinary Items as above (In Conformity with I.C.C. Accounting Principles)	$ 16,334	$ 18,189
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(3,462)	(5,812)
Net Income Before Extraordinary Items	12,872	12,377
Extraordinary Items:		
Extraordinary Items as above (In Conformity with I.C.C. Accounting Principles)	(6,472)	
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	1,483	
	(4,989)	
Net Income (Including Extraordinary Items) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ 7,883	$ 12,377
Depreciation and Retirement Charges Included Above	$ 22,944	$ 21,856

Texas and Pacific System

(Owned 96.3% By Missouri Pacific Railroad Company)

Statement of Consolidated Income

(In Thousands of Dollars)

	1971	1970
Operating Revenues:		
Freight	$110,068	$ 98,758
Passenger, Mail and Express	2,746	3,392
Switching and Other	2,639	2,980
Total Operating Revenues	115,453	105,130
Operating Expenses:		
Maintenance of Way and Structures	16,021	13,416
Maintenance of Equipment	20,797	18,918
Traffic	3,861	3,755
Transportation	48,903	44,204
General and Miscellaneous	4,647	4,346
Total Operating Expenses	94,229	84,639
Net Revenue from Operations	21,224	20,491
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	6,898	6,705
Equipment and Joint Facility Rents	3,832	2,818
Total Other Operating Charges	10,730	9,523
Net Operating Income (Before Federal Income Taxes)	10,494	10,968
Other Income (Net)	1,322	2,186
Income Available for Fixed Charges (Before Federal Income Taxes)	11,816	13,154
Fixed Interest	5,388	5,389
	6,428	7,765
Federal Income Taxes	307	283
	6,121	7,482
Deduct (Add)-Income (Loss) Applicable to Minority Interest	12	(10)
Net Income Before Extraordinary Items	6,109	7,492
Extraordinary Items, Less Federal Income Taxes	(697)	
Net Income (Including Extraordinary Items) (In Conformity with I.C.C. Accounting Principles)	$ 5,412	$ 7,492

Supplementary Income Information

	1971	1970
Net Income Before Extraordinary Items as above (In Conformity with I.C.C. Accounting Principles)	$ 6,109	$ 7,492
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(2,501)	(2,989)
Net Income Before Extraordinary Items	3,608	4,503
Extraordinary Items:		
Extraordinary Items as above (In Conformity with I.C.C. Accounting Principles)	(697)	
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(177)	
	(874)	
Net Income (Including Extraordinary Items) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ 2,734	$ 4,503

	1971	1970
Depreciation and Retirement Charges Included Above	$ 8,242	$ 7,453

Chicago & Eastern Illinois System

(Owned 61.1% By Missouri Pacific Railroad Company)

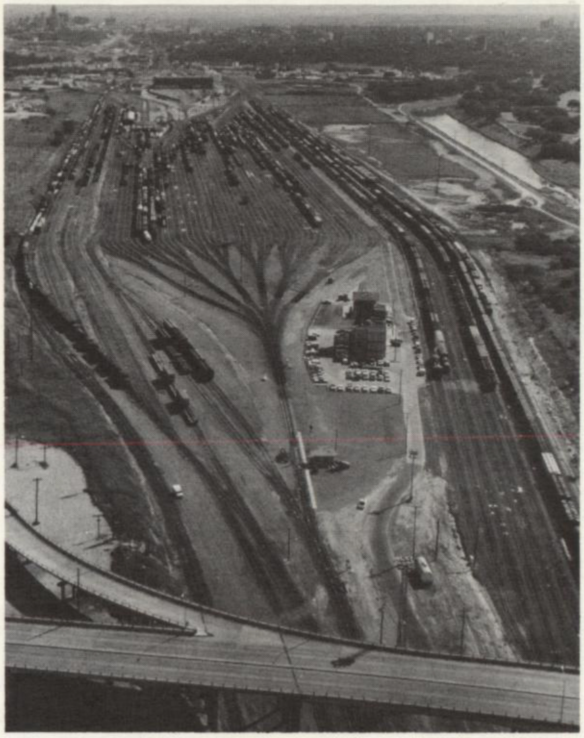
Statement of Consolidated Income

(In Thousands of Dollars)

	1971	1970
Operating Revenues:		
Freight	$ 34,753	$ 29,817
Switching and Other	2,981	2,991
Total Operating Revenues	37,734	32,808
Operating Expenses:		
Maintenance of Way and Structures	7,463	6,535
Maintenance of Equipment	6,642	5,776
Traffic	1,240	1,224
Transportation	12,323	11,020
General and Miscellaneous	1,739	1,568
Total Operating Expenses	29,407	26,123
Net Revenue from Operations	8,327	6,685
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	2,376	2,359
Equipment and Joint Facility Rents	2,660	2,690
Total Other Operating Charges	5,036	5,049
Net Operating Income (Before Federal Income Taxes)	3,291	1,636
Other Income (Net)	358	7
Income Available For Fixed Charges (Before Federal Income Taxes)	3,649	1,643
Interest:		
Fixed	680	776
Contingent	86	86
Total Interest	766	862
	2,883	781
Federal Income Taxes	398	
Net Income Before Extraordinary Item	2,485	781
Extraordinary Item, Less Federal Income Taxes	(875)	
Net Income (Including Extraordinary Item) (In Conformity with I.C.C. Accounting Principles)	$ 1,610	$ 781

Supplementary Income Information

	1971	1970
Net Income Before Extraordinary Item as above (In Conformity with I.C.C. Accounting Principles)	$ 2,485	$ 781
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	(875)	(383)
Net Income Before Extraordinary Item	1,610	398
Extraordinary Item:		
Extraordinary Item as above (In Conformity with I.C.C. Accounting Principles)	(875)	
Adjustments to Generally Accepted Accounting Principles — Deferred Federal Income Taxes	407	
	(468)	
Net Income (Including Extraordinary Item) (As It Would Be Stated in Conformity with Generally Accepted Accounting Principles)	$ 1,142	$ 398
Depreciation and Retirement Charges Included Above	$ 1,986	$ 2,004



ON THE COVER

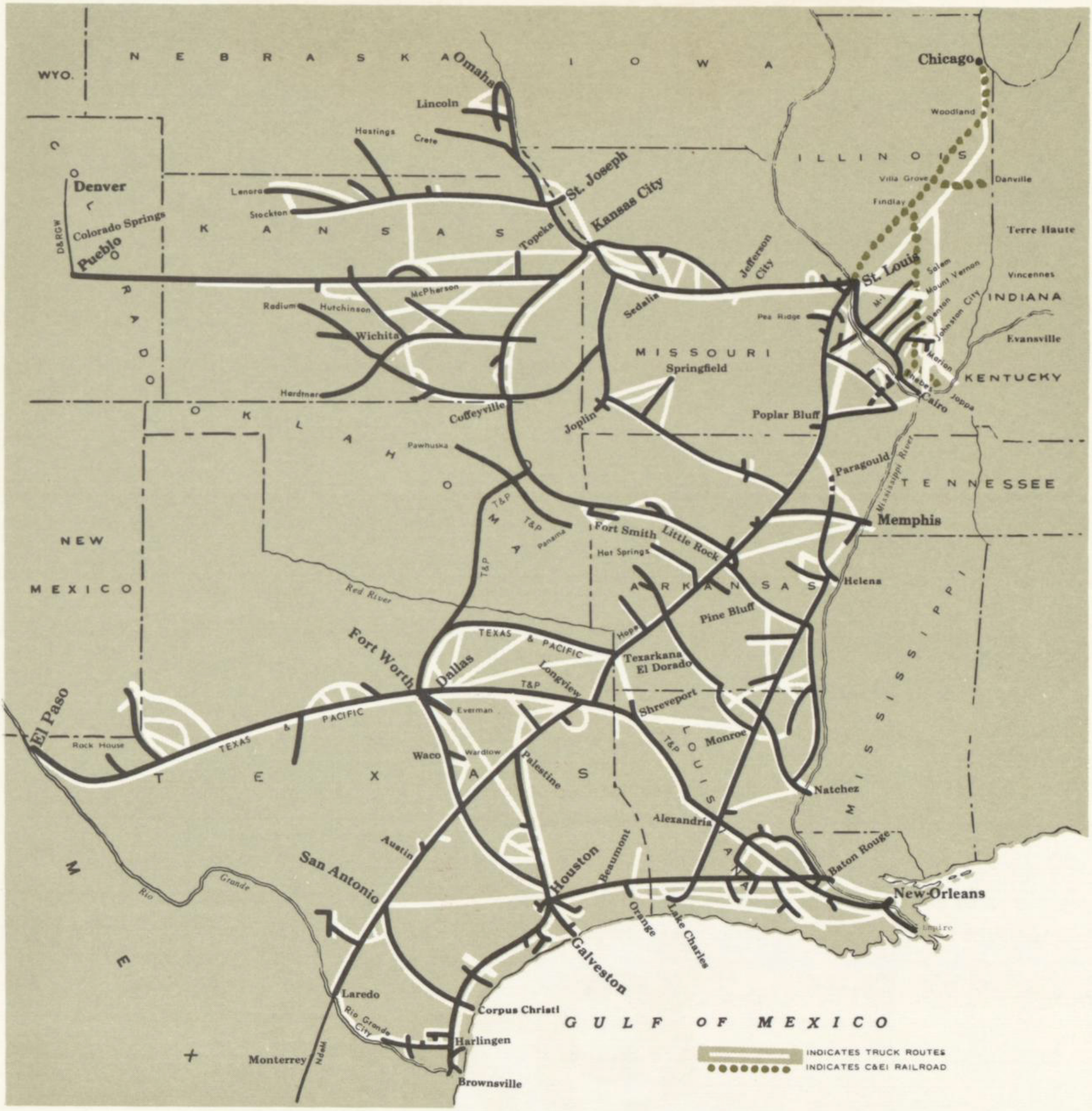
Newest major project to be completed by the Missouri Pacific System is Centennial Yard at Fort Worth, Texas. Built on the site of an existing yard, Centennial offers greater car handling capacity and is equipped with one of the railroad industry's most sophisticated computer control installations. As a result of this project, handling time for cars passing through this busy terminal has been cut in half.

Mo-Pac's Rail / Highway Distribution System

The Missouri Pacific — Texas & Pacific System totals about 12,000 miles of railroad in an area extending from the Mississippi River on the east, to the Colorado Rockies, from Omaha and St. Louis on the north, to the Gulf of Mexico and the Rio Grande.

Its on-line territory, in which traffic originates and terminates, includes 12 states in the midwest, south and southwest. With gateways to and from the west at Pueblo and El Paso, and to the east at St. Louis, Memphis and New Orleans, the MP — T&P combination provides an exceptionally wide choice of routes for overhead east-west traffic. Handling substantial volumes of export-import traffic through 11 Gulf ports and through the Brownsville, Laredo and El Paso gateways to Mexico, it is an important link in foreign commerce as well as one of the nation's major domestic carriers.

Supplementing the rail lines is a network of some 17,000 miles of truck routes operated by Missouri Pacific Truck Lines, Inc., and The Texas & Pacific Motor Transport Company. Much of the highway mileage parallels the rail lines but many routes provide scheduled freight service to places not reached by the railroads. The two highway subsidiaries also perform all the terminal and piggyback ramp loading and unloading for Missouri Pacific Railroad — Texas & Pacific Railway billed traffic and over-the-highway service for piggyback traffic.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